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TO AMEMBASSY TAIPEI

C O N F I D E N T I A L STATE 033030

E.O. 11652: GDS

TAGS: EAGR, CH

SUBJECT: COTTON CONTRACT PROBLEM

REF:

1. U.S. COTTON EXPORTERS CONTINUE TO EXPRESS OUR CONCERN OVE
SLOWNESSINOPENINGOF OVERDUELETTERS OF CREDIT (L/C"S) FOR
COTTONCONTRACTSCOVERED BY "LETTEROF ASSURANCES"PROVIDED
BY GROC. L/C'S REMAIN UNOPENED ON 51,830 BALES CONTRACTED
BY 17 MILLS. HIGH GROC OFFICIALS HAVE REAFFIRMED COMMIT-
MENT TO ASSURANCES ON SEVERAL OCCASIONS. DIRECTOR OF
BOARD OF FOREIGN TRADE Y.T. WANG PROMISED DURING MEETING
SEVERAL MONTHS AGO TO REVIEW PROBLEM AND PROVIDE REPORT
TO USG. REPORT NEVER RECEIVED. AT APPROXIMATELY SAME
TIME, ASSISTANT SECRETARY HABIB ALSO RAISED ISSUE WITH ROC
FINANCE MINISTER K.T. LEE. SOME MILLS HAVE SUCCESSFULLY
RESISTED OPENING L/C'S, AND BOFT HAS SHOWN NOTABLE LACK
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OF ZEAL IN APPLYING PRESSURE TO OVERCOME THIS RESISTANCE.

KOREAN MILLS HAVE NOW RPT NOW OPENED L/C'S FOR ALL CONTRACTS COVERED BY ASSURANCES, AND WE BELIEVE IT FAIR THAT TAIWAN MILLS, WHICH ARE IN CLOSE COMPETITION WITH KOREAN MILLS FOR EXPORT MARKETS, BE EXPECTED TO DO LIKEWISE. THIS TELEGRAM ATTEMPTS TO IDENTIFY AND CATEGORIZE DELINQUENT MILLS AND TO DISCUSS EACH CATEGORY, GIVING U.S. POSITION AND RECOMMENDED ACTION.

2. CATEGORY I: MILLS HAVING DISPUTES WITH U.S. SHIPPERS

(2 MILLS - 6500 BALES)

A. MILLS AND BALES INVOLVED:

FU - 2500 BALES

YUNG LONG - 4000 BALES

B. DISCUSSION - FU I - MILL OPENED L/C CONTAINING RESTRICTIONS UNACCEPTABLE TO U.S. SHIPPER (HOHENBERG.) SITUATION AND CURRENT OFFER DISCUSSED FASTO 1 OF JAN. 7, 1976. BOFT DOES NOT RPT NOT CONSIDER MILL IN DEFAULT SINCE L/C WAS OPENED.

YUNG LONG - DISPUTE IS VERY COMPLICATED AND CONCERNS, INTER ALIA, CONTRACTS SEVERAL YEARS OLD.

C. U.S. POSITION AND RECOMMENDED ACTION: WE BELIEVE BOFT SHOULD MAKE EFFORT TO PERSUADE MILLS TO SETTLE DISPUTES WITH SHIPPER, OR FAILING THIS, TO TAKE CONTRACT TO ARBITRATION AS SOON AS POSSIBLE. WHERE DISPUTE INVOLVES CONTRACTS NOT ON ANNEX, L/C'S FOR ANNEX COTTON SHOULD BE OPENED IMMEDIATELY. BOFT SHOULD BE URGED TO CONTACT MILLS AND PRESS FOR IMMEDIATE OPENING OF L/C'S.

3. CATEGORY II: BOFT SANCTIONS APPLIED, L/C'S NOT OPENED (4 MILLS, 13,600 BALES)

A. MILLS AND BALES INVOLVED AND DATE OF SANCTIONS:

CHEN HSING -- 1000 BALES -- OCT. 3, 1975

CHUNG FU -- 2000 BALES -- AUG. 20, 1975

FU SHIN -- 6800 BALES -- OCT. 3, 1975

JOICING -- 3800 BALES -- AUG. 20, 1975

B. DISCUSSION: BOFT SANCTIONS DENY MILL IMPORT LICENSES FOR RAW COTTON AND EXPORT LICENSES FOR TEXTILE GOODS. IT IS DIFFICULT TO UNDERSTAND HOW A TAIWAN MILL COULD OPERATE UNDER THESE CONDITIONS, YET FOUR MILLS NAMED ABOVE APPEAR TO BE DOING SO. AS A RESULT, EFFECTIVENESS
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AND FIRMNESS OF BOFT APPLICATION OF SANCTIONS IS CALLED INTO QUESTION. FU SHIN MAY BE SPECIAL CASE SINCE REPORTS INDICATE MIEL IS CONVERTING ENTIRELY TO MAN-MADE FIBER.

C. U.S. POSITION AND RECOMMENDED ACTION: WE APPRECIATE AND SUPPORT BOFT ACTION IN LEVYING SANCTIONS. EMBASSY SHOULD EXPRESS OUR SURPRISE AND CONCERN THAT SANCTIONS HAVE NOT RPT NOT BEEN EFFECTIVE AND INQUIRE WHAT FURTHER ACTION MIGHT BE NECESSARY TO INSURE OPENING OF L/C'S.

4. CATEGORY III: NEW OWNERS, NO PENALTIES APPLIED BY BOFT
(2 MILLS, 7800 BALES).

A. MILLS AND BALES INVOLVED:

CHUMG SHING (FORMERLY LONGMORE) - 3000 BALES

WINNING (FORMERLY YANG MING) - 4800 BALES

B. U.S. POSITION, DISCUSSION AND RECOMMENDED ACTION:

WE BELIEVE WHEN A MILL IS SOLD LIABILITIES, E.G., CONTRACT COMMITMENTS, ARE SOLD ALONG WITH ASSETS, THIS POSITION HAS REPEATEDLY BEEN MADE CLEAR TO BOFT AND BOFT HAS BEEN CONSIDERING APPLYING SANCTIONS FOR OVER TWO MONTHS. BOFT SHOULD BE STRONGLY URGED TO APPLY SANCTIONS TO THESE MILLS WITHOUT FURTHER DELAY.

5. CATEGORY IV: MILLS NOT OPERATING (7 MILLS, 10,230 BALES).

A. MILLS AND BALES INVOLVED:

SHIN HO -- 500 BALES

SHING JIEN -- 1000 BALES

TA SUN -- 1000 BALES

TONG CHU -- 1000 BALES

UNITED -- 1000 BALES

YU KUO -- 1000 BALES

YU SHIAW -- 800 BALES

B. U.S. POSITION, DISCUSSION AND RECOMMENDED ACTION:

THESE CONTRACTS ARE WITHOUT DOUBT MOST CONTROVERSIAL ONES TO ANNEX AND OPENING OF L/C'S WILL BE VERY DIFFICULT TO OBTAIN. WE HAVE MAINTAINED THAT IF MILL CANNOT OPEN L/C, GROC SHOULD DO SO UNDER OBLIGATIONS GROC ASSUMED IN ASSURANCES. GROC HAS NEVER DENIED OR CONFIRMED THIS POSITION, BUT L/C'S REMAIN UNOPENED. EMBASSY SHOULD RE-STATE THIS POSITION TO BOFT, BUT BURDEN OF EMBASSY PRESSURE SHOULD FALL ON CONTRACTS LISTED IN OTHER CONFIDENTIAL

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CATEGORIES.

6. CATEGORY V: OTHER MILLS (2 MILLS, 13,700 BALES).

A. MILLS AND BALES INVOLVED:

TAY I -- 11,700 BALES

TRIPOD -- 2000 BALES

B. DISCUSSION: TAY I -- THIS MILL, WHICH HAD LONG

BEEN REPORTED AS NOT OPERATING, OPENED L/C FOR 8900 BALES IN JANUARY, 1976. THERE IS SOME INDICATION THAT REMAINDER OF L/C WILL BE OPENED, BUT MILL'S SITUATION AND INTENTIONS STILL REMAIN UNCLEAR.

TRIPOD: 2000 BALES LISTED ABOVE DOES NOT RPT NOT INCLUDE 2800 BALES WHICH MILL CLAIMS WERE NOT RPT NOT BOUGHT FROM RALLI-CONY (WHO PLACED MILL ON ANNEX) BUT FROM PALMER WALL. SITUATION OF THIS 2800 BALES NEEDS FURTHER CLARIFICATION.

REGARDING 2000 BALES LISTED ABOVE, TRIPOD HAS STATED L/C WILL BE OPENED IF COOK INDUSTRIES WILL REINSTATE THREE CANCELLED CONTRACTS. ACEA IS INVESTIGATING REQUEST. C. REQUESTED ACTION: EMBASSY SHOULD ATTEMPT ONCE AGAIN TO CLARIFY SITUATION OF THESE TWO MILLS WHILE AT SAME TIME WE MAKE INQUIRIES WITH SHIPPERS CONCERNED.

7. REQUEST EMBASSY DISCUSS SITUATION AS DESCRIBED ABOVE WITH BOFT OFFICIALS, EXPRESSING OUR APPRECIATION FOR PROGRESS TO DATE, OUR DISMAY THAT 'E HAVE NOT RPT NOT SUCCEEDED IN PUTTING THIS TROUBLESOME PROBLEM ENTIRELY BEHIND US, CITING KOREAN ACCOMPLISHMENTS, AND OUR VIVID INTEREST IN CONCLUDING THE ASSURANCES AS SOON AS POSSIBLE. EMBASSY SHOULD ALSO DISCUSS PROBLEM IN MORE GENERAL TERMS AT CABINET LEVEL, REQUESTING ONCE AGAIN COMPLIANCE WITH ASSURANCES IN ACCORDANCE WITH PAST PROMISES. INGERSOLL

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